

ARGICULTURAL MARKETING AND SUPPLY CHAIN MANAGEMENT IN TANZANIA

Elina Eskola^{*†}

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1. Introduction

Tanzania's economy is heavily dependent on agricultural production that accounts for half of the country's GDP and foreign exchange earnings, provides 51 percent of foreign exchange and in most regions around 60 to 80 percent of adults report agriculture as their main activity. Selling agricultural products is the main source of cash income for most of the rural households. Even though the heavy dependence on agriculture is seen as a hindrance for rapid growth and a structural change is needed in the long run, the dominating role of agriculture is not likely to change in the near future. Thus the government has recently started targeting agricultural reforms as the quickest way to reduce poverty. In late 2001 the government produced Agricultural Sector Development Strategy (ASDS) that aim to provide the basis for the rural sector of the economy to become an engine of growth, leading to a substantial reduction of poverty. This goal is also discussed in Poverty Reduction Strategy Paper (PRSP) of 2000, where growth in agriculture was set as one of the pillars for achieving medium term targets for poverty reduction.

In order to promote agricultural trade and poverty alleviation, it is crucial to understand the hindrances and limitations that the stakeholders face today. The government of Tanzania has carried out a substantial programme of trade liberalisation in response to fiscal pressure imposed by the previous state monopsony and price control of grain and food market. The government began a programme of food market liberalisation in 1984 and by 1990 virtually all restrictions on the private trade in grains had been removed. However, the traders still face substantial difficulties in organising trade due to lack of capital, training in business skills and insufficient infrastructure. Marketing the agricultural products especially in the isolated rural areas is heavily dependent on physical infrastructure that at its current state provides a challenge for efficient trading. Rapid removal of formal barriers for free trade has left the playing field open for new actors to enter, and

* Address for correspondence: A.E.Eskola@Sussex.ac.uk University of Sussex, Department of Economics, Arts Building E, Brighton, Falmer, BN1 9SN, United Kingdom

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old institutions that were previously dominant in the marketing of agricultural products have been forced to change form. The current situation presents opportunities but also new difficulties for the market actors to exploit the opportunities offered. Even though the formal barriers at the national level have been removed, still various structural and informal barriers prevail leading to ineffective marketing of the agricultural production. In order to address these problems, the government of Tanzania is currently at the final stages of finalising the new Agricultural Marketing Policy (AMP), which should give clear guidelines on future policies to facilitate trade. The aim of the current research paper is to contribute to the ongoing discussion on formal and informal barriers for trade in Tanzania today, to provide further insights on how the supply chain is functioning at present, and to suggest possible policies to facilitate trade in agricultural crops, which could be used when formalising the strategies for implementing the AMP.

2. Methodology

The material for this paper has been collected during field work in March and April in 2005. The field work was carried out in collaboration with the Economic and Social Research Foundation (ESRF). During this period a survey for retailers and buyers at different markets was carried out to pin down the common characteristics of and obstacles faced by the market participants. After the survey questionnaire was tested in a pilot study at Ilala market in Dar es Salaam, the survey was expanded to cover Ilala, Kinondoni, Ubungu, Tandale and Kariakoo markets in Dar es Salaam, Ifakara, Bethalem and Kibaoni markets in Ifakara, as well as Mtwara and Newala markets in Mtwara. Altogether 190 small scale traders and buyers were interviewed for the study. The questionnaire covered questions related to access to markets, individual characteristics of the market participants, poverty and food security status, trading practices, and main problems faced by the traders and buyers. The survey questions were commonly well understood, even though some variables were measured with error as the respondents were unable to determine their daily profit, share of own production, money spent on food, and sometimes even age with accuracy. Effort was made to target all groups of traders present at each market and to interview all subgroups of buyers (young/old, male/female, rich/poor, rural/urban).

Besides the survey, focus group interviews were carried out to incorporate the perspective of all the stakeholders in the supply chain from the producer to the final consumer. These focus group discussions involved large scale traders, whole sellers, brokers, transportation workers, and other relevant groups discussed in detail in part 4. Finally, key informant interviews with relevant individuals, such as the managers of the markets surveyed, government officials, and academics

have provided insights into the analysis. A complete list of instances consulted for the study is presented in appendix 1.

The districts selected for the study were chosen by target sampling. As the aim of the research was to investigate poverty implications of trade facilitation, two poverty stricken areas were chosen for the study. Ifakara was selected as a representative of a land-locked food crop producing area, which is not easily accessible. The area is fertile and suited for diversified cultivation as well as mixed cultivation. The most common crops are rice and maize but also coconuts and cashew nuts are grown. There is also a river close to the Ifakara centre and fishing is an important source of livelihood. Cultivation is dependent on the rainy seasons, but heavy rains can also cause problems in the area. The road to the city centre is in bad condition especially during the rainy season and the feeder roads to the market become inaccessible. Products coming to the market may be rotten as they come due to delays in transport on the poor roads. As the city centre is in a valley, heavy rains can result in extensive flooding covering wide areas of land and cultivation. There is a rail track to Ifakara which can be used for transporting agricultural products but due to the costs of shipping products on the train and highly irregular time table of the train, most products are transported by road.

Mtwara, on the other hand, was selected as a representative of cash crop producing area with a major harbour but poor quality of road network. Mtwara region is dominated by the production of cashew nuts, and the area accounts for 60 percent of the national cashew nut production. The dry soil is well suited for cashew nut production and cashews are produced by both large scale farmers as well as the small scale farmers accounting for 80 percent for the population in the region. Besides cashew, also cassava is widely grown as a food crop which can also be sold at the local market in case of acute shortage of cash. The agricultural trade of food crops in the region is dominated by the cashew nut harvest season, not the harvest for food crops as is the case in Ifakara. During the cashew season there is a lot of money in circulation in the area, which boosts trade and the seasonal fluctuation in trade volumes are large depending on the effective demand and the purchasing power of the customers, which declines rapidly right after the cashew harvest. Cashews are harvested in the dry season from October up to January. The traders come to collect the cashew nuts from buying centres (cooperative societies) where they have been collected ready for export. The domestic market for cashews is very small and cashews are purely cultivated to be sold for cash. Mtwara region has only one rainy season from January until April. Frequent traffic of heavy cashew trucks followed by the rainy season is damaging for the road network in the area. Most of the roads

in the area are not paved and 35 percent of the regional roads are in poor condition (TANROADS). There have been no major improvements in the road network in recent years but the maintenance has concentrated on spot repairs on most heavily damaged areas. There are plans to rehabilitate the trunk road from Mtwara to Dar es Salaam, but currently due to the poor condition of the road, most products are transported from Dar es Salaam by ship.

Finally Dar es Salaam was included in the study as the main market in the country representing the large scale national trade with easy access by road, rail and sea. Dar es Salaam is also the most affluent area in the country that imports most of its food from other regions in the country. Dar es Salaam market is the main destination of agricultural production in Tanzania, and it serves also consumers in other regions: rice from Ifakara to Mtwara passes through Dar es Salaam as there are no roads from Ifakara to Mtwara. The capital region hosts most of the transportation and export companies as well as main banks which highlights its importance as the centre of trade in the country. Dar es Salaam offers also wage employment for many that insures the purchasing power of its customers and makes it an attractive market for all agricultural producers.

3. Market Structure for Agricultural Products

The majority of small scale agricultural producers are consuming their production to large extent within the household. The remaining surplus production can be sold either to the local markets or to national markets depending on the products and producer's access to the market. Four types of markets can be characterised as the main fora for transaction: the local village markets, regional markets, national markets, and export markets.

3.1 Local Village Markets

Local markets are small and cater for a limited number of near-by households. The markets are informal and emerge at cross-roads or small concentrations of households to facilitate the exchange of products among local farmers using money as a means of exchange. The traders at the markets are farmers themselves with well-established small circles of customers. The access to the local market is easy but the supply at the market is very limited and fluctuates according to the season. Thus these local markets cannot be relied upon to guarantee food security during shortage of food in the local area. These markets are not connected to the national markets and little attempt is made to engage with the larger markets in the region. Local traders are most often women or children of the household who collect the products from local producers and sell them to their established circle of customers while exchanging the news with the neighbours and watching the small children. Even

though larger markets would be accessible to these traders, social benefits at the local market outweigh the modest economic benefit of engaging with the regional market.

Even though better storage facilities for perishable products and larger working capital for expanding the business at the local market are in high demand, the cool storage needed for the goods would be a sizable investment with high running costs in areas where most households do not have access to main grid electricity and power cuts are common. Also the expansion of business with increased capital is unlikely to succeed as the customer base at the local market is fixed and unless other sources of cash income are present at the villages, very limited amount of money gained from selling agricultural products to neighbouring households circulates in the village. More viable way of supporting the local traders might be generating alternative sources of non-farm income which in many of the villages are close to non-existent and/or encourage traders' involvement at larger markets.

Box 1: Ifakara Women's Group Expanding Trade

An example of a viable way to involve local traders into the market is shown by a group of 11 women in Ifakara district. To complement each member's individual farming income, the group rented 1 acre of land together where they cultivate vegetables to be sold at the regional Ifakara market. The rent of the plot is covered by the group membership fees of 1000 shillings and each member is also responsible of investing 10,000 shillings into the group savings account. One of the group members produces the seeds, which are ranked to be among the highest quality in the area. Every other day one of the group members cycle to the Ifakara market to sell the products for approximately 5000 shillings. The money is deposited in the bank as the group is saving in order to expand their business. The plan is to raise enough capital to demonstrate ability to save and attract sponsors for a fish pond. Fish would provide income even when the agricultural products are scarce. Fish can be sold fresh and the remaining catch can be smoked for easy storing in absence of cool storage and sold later. The group is motivated and determined to work for expansion. The group has succeeded in generating income and savings to the group members who may not have been in a position to save and expand on individual basis.

3.2 Regional Markets

Regional markets are located in the centre of the region providing a variety of food products as well as other non-food items, such as spare parts, second hand clothes and electrical appliances. These markets are often the largest markets available to the consumers and what the regional markets do not supply, the consumers go without. The supply at the market is more reliable than at the local markets even though temporary shortage of goods may arise during the year. The producers may come to the markets to sell their products but most often the trade is run by professional traders who collect the products from the local farmers (either at the farm gate or at the market) and come to the

market every day of the week. The markets are well organised and the traders must often register to be granted a permission to trade at the market. There is also a daily fee of a couple of hundred shillings to be paid to the market for organisation and security. Traders in regional markets commonly collect goods from a large geographic area including other regional markets, local small and large scale producers, as well as collection points in food surplus areas. The traders at the markets can be classified into large, medium and small scale traders depending on the size of the business.

The large scale traders sell several products including staple grains and vegetables from different regions. They are able to travel far to get the products and may hire other people or family members to attend the business while they go to buy the products. These traders are based at the regional market but they can occasionally also ship products to and from Dar es Salaam. Their turnover varies from 30,000 shillings to 100,000 shillings per day. The large scale traders buy from known producers and are often able to get credit from the producers based on a long term working relationship. A major asset for these traders is the acquired knowledge of the business and established links to the local customers. They are unlikely to move from the local market into the national markets even for marginally higher profit as they are committed to serving the existing base of customers. They also commonly grant credit to their customers. The main constraints for these traders are the poor infrastructure which makes the transportation of the products from different regions and remote producers difficult, and the lack of capital to expand the business or to engage in storing the products when the price is low to be sold when the price is high. These traders are still relatively well off and able to save in order to expand their business.

Medium scale traders buy their products mainly from the local producers and trade quite a limited number of goods. Their turnover is around 20,000 shillings per day, and they too commonly get credit from the producers and give credit to their customers as they know each other well. Medium scale traders are aware of the opportunities of trading with other regions but are unable to exploit these opportunities due to lack of capital. Their working capital is enough to run the business and make a living at the regional market but not to finance the transport cost or the purchase of large quantities of goods at once from other regions. Medium scale traders are also more vulnerable to price fluctuation than the large scale traders, and they are also more likely to trade with perishable and inferior goods, facing the risk of loss which they are poorly equipped to bear. Many of the medium scale traders would like to change into grain trade as the products are easy to store and are highly valued. However, medium scale traders do not have sufficient capital to enter grain trade where

large quantities are traded at once, and the aspiration for grain trade seems more prestige-driven than market demand driven. The business knowledge of the medium scale traders is weaker than the large scale traders and they are often unable to carry out bookkeeping, calculating profits or identifying costs.

Small scale traders are mostly working for survival. They have very little or no land of their own and they collect the products for selling by foot, hired bicycles, or buy them from the large traders at the same market only to be sold with a small marginal. The products sold are often easily perishable (cassava leaves and pumpkin leaves traded by women and bananas traded by men). Their turnover is up to 5000 shillings per day and they have little or no plans or possibilities to expand the business. Many of the small scale traders wish for a means of transportation so that they too could buy the products directly from the producers and thus make larger profit. Most of them would still wish for a loan not to improve the existing business but to enable them to escape from it. Small traders suffer from poor food security and are often also otherwise disadvantaged e.g. being very old or having lost a bread winner in the household. They can rarely afford to give credit to their customers as their capital is just enough to buy the daily goods to be sold, and they have difficulties in getting credit from the producers as their problems of paying back are known.

Box 2: Trading as the last means of survival

An old lady unable to know her own age is trading bananas at the Ifakara market. She is living with two elderly family members and her handicapped brother is the head of the household. She comes to the market every day and often stays with her friends as she moves slowly and it takes her five hours to reach the market from her house. She does not own any land nor is she able to rent and cultivate any. She has started trading in her old days as means to support herself. She buys the bananas from the other traders at the market and sells 600-700 shillings worth of goods daily. She had been given exemption from the rent at the market due to her old age and poor standard of living. Even though she spends all her earnings on food, she is often forced to skip meals due to lack of income. She has no means or plans to expand her business.

3.3 National Market

The national market collects products from all regions to be sold mostly in Dar es Salaam. The market is large and operated by large scale actors working with smaller scale trade facilitators. The market can be characterised by a large number of small scale producers and local traders, a few large scale traders who are able to finance transport and marketing costs, and again a large number of small scale retailers and final customers. Due to the bottle neck of capital required to buy and transport large quantities of goods, the national market is more limited in access than the local and

regional markets, but it is also larger in scope and provides producers with cash income and opportunities for traders to expand their business. Still, the link from the national market of food crops to the international market of processed food products needs developing to ensure the dynamic nature of the market, and possibilities for expansion.

3.4 Export Market

The export market for cash crops at present is rather isolated from the national market for food crops. The crops sold to the export market have often only a limited domestic market and thus the goods are traded through different channels than the domestically consumed goods. The export trade is dominated by large scale traders as is the national market, with the distinction that at the export market the traders are usually foreign dealing with unconstrained supply of capital and considerable market power to affect the prices. There are reasonably few Tanzanian traders engaged in export trade: foreign buyers collect large quantities of goods from established buying centres and transport them to the boarder ready to be shipped out of the country. Tanzania is exporting mainly unprocessed agricultural products and little value added from retail and wholesale services or processing stay in the country.

4. Supply chain of Agricultural Products in Tanzania

4.1 National Market

Even at the national level, trade in Tanzania is mostly based on long-term personal relationships, which is seen as the only functional way for trading in absence of adequate market information and legal framework for enforcing contracts between strangers. Thus the supply chain from the producer to the final consumer is long and can take many forms along the way. Figure 1 presents the stakeholders in different parts of the supply chain for main staples (maize, rice and beans). Even though households in rural areas consume a range of other food staples, such as cassava, tubers and legumes, these are less popular in the urban areas where the consumers' taste is different. These products are bulky and have low price per kilo, which makes the transportation relatively costly and limits the marketing of the products to the local areas. Although these non-cereal food staples are an important part of ensuring food security in the rural areas and the major crops traded at the village and regional markets, they rarely enter into the national market due to high transportation costs and low demand in urban areas. Thus the analysis of the national markets is concentrated on the example of cereals.

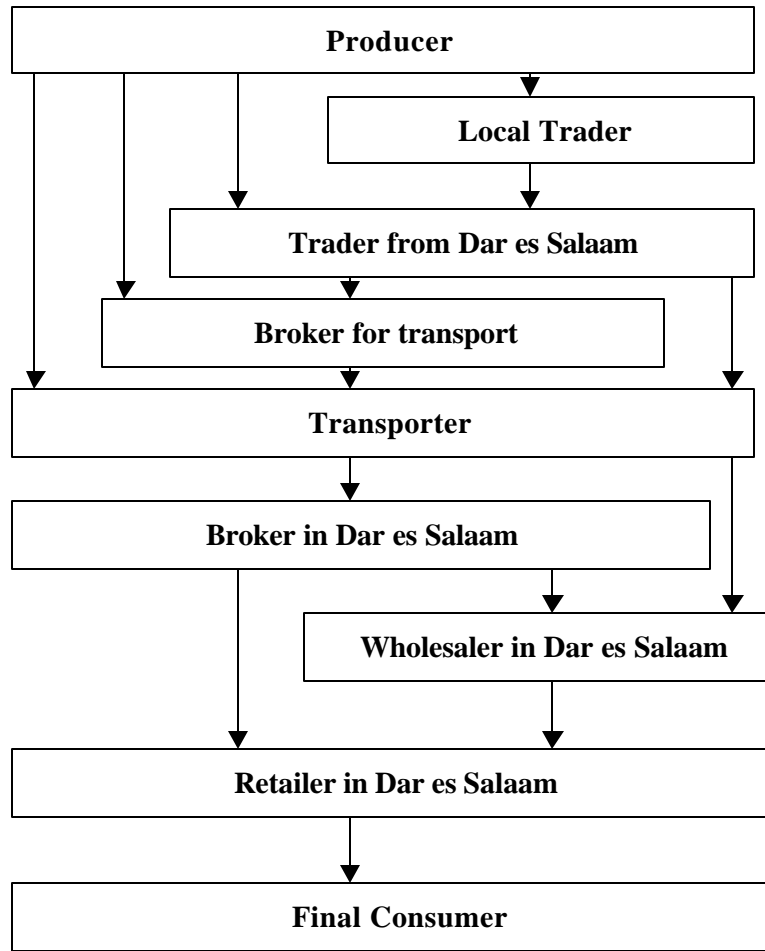


Figure 1: Supply Chain of Agricultural Products from Regions into Dar es Salaam Market

The producer can sell her products either to the local traders, or to the buyer coming from Dar es Salaam, or she can hire a truck to take the products directly to Dar es Salaam. Local traders act as facilitators between many local producers and a few Dar es Salaam buyers. As trade even today is very much based on personal relationships, traders are reluctant to do business with unknown partners. Thus brokers are needed in several parts of the supply chain to transfer information of the quantities and prices supplied and demanded, and acting as guarantors of the two parties for a small commission. Local traders collect the products from local producers by driving into a village announcing the daily price for which they are willing to buy the goods and then collecting the products of different producers into easily collectable deliveries by a local trunk road waiting for a buyer. The collection of the goods can also be done by the Dar es Salaam buyer in case he knows the local producers and the local traders have not been able to buy the products already. Once the products have been bought (either from the producer or from the local traders for small

commission), transportation to Dar es Salaam is arranged. Very few traders own their own means of transport but they hire a lorry once they have bought the goods. Transporters are working independently and brokers are often needed to connect the producers or traders needing transport to the drivers waiting for goods to be transported. The transporters take the goods to Dar es Salaam to a known buyer or to a broker who pays the transporters for their services. Brokers are working for a small commission and facilitate rapid dissemination of large quantities of products arriving to Dar es Salaam at once. Brokers sell the products to wholesalers or directly to retailers coming from different markets in Dar es Salaam. The final consumer finally buys the goods at her local market from her local trader. The roles of each stakeholder group is not clear cut and some people often fulfil the role of a broker, wholesaler and a retailer simultaneously. However, for the sake of clear presentation, the characteristics of each of the groups are discussed separately below.

4.1.1 Producers

The producers of the products live in rural areas and cultivate crops both for own use as well as for sale. Mixed cultivation of several crops on the same plot is common, and the majority of food crops consumed are produced at home. Selling agricultural production is most often the only source of cash in the rural households, and thus getting the surplus production to the market is of crucial importance. The farmers rarely have the capital to pay for the transportation and marketing of the goods at larger markets and they often sell the products to traders coming to the farms or take them to the nearest trunk road for the traders to collect them. The producers do not make advance agreements with the traders but sell when and if the traders come to the farm for the offered price. At times producers who live close to a road share a small truck with 10-15 other producers in the village and drive their products to the market where they are sold at wholesale basis. Only rarely when the farmer is unable to get the price they expect does the producer stay at the market to sell the products directly to the final consumers. Most often the retail trade is left for professional traders who live close and can stay at the markets all day, as it takes the producer the whole day to come to the market. If the producer only has small quantities to sell, they usually sell them at the village avoiding the cost of going to the market. Some larger producers are able to meet the transport costs that need to be paid in cash to ship the products directly to Dar es Salaam to a known broker, who then sells the products on her behalf. The producer gets the money only after the goods have been sold and the broker's commission has been deducted. The producer can also act as a wholesaler at the Dar es Salaam market directly even though this is not often done as selling the products may take a long time and producers are unable to pay for the transport and

accommodation. Small scale producers, on the other hand, are unable to finance the transport and wait for the payment and thus their only option is to sell at farm gate.

The main constraint for increased trading is the difficulties in production. Farmers are often unable to purchase the necessary farming inputs which leads to poor harvest and even more difficulties to buy the inputs next year. This vicious circle is difficult to break without access to credit that would ease the farmers' liquidity constraint. Formal credit institutions are not present in rural areas and informal lending from neighbours is constrained due to the fact that the whole village needs to the inputs at the same time when all the households are short of cash. Besides lack of cash to buy the inputs, the supply of them is very limited as well. In absence of sufficient supply of farming inputs, the knowledge of good farming practices can play an important role of enhancing the production. The farming practices are still rather old fashioned and the production is not demand-driven. Further education in farming and marketing skills are in high demand among the farmers. The producers are also constrained by lack of storage facilities and thus products are often sold directly from the field as the producer postpones harvesting until the buyer is known. Lack of capital and storage is not only a constraint for the small scale farmers but also the large scale farmers are unable to produce at full potential due to these constraints.

The inefficiency in production is reflected in the whole of the supply chain in form of delays in supply, quality of the products as well as the price of the products. All stakeholders interviewed for the study were wishing for improvements in farmers' production for them to be able to produce more high quality products that could be sold at reasonable prices. In case agricultural sector is to act as the engine of growth for the whole economy, inefficiencies in production are costly for the society as a whole. Efficient supply chain is only a means to an end of distributing the production, but the volume and quality of the products is the basis for which the chain is to be built on.

4.1.2 Local Brokers

Local brokers know the region and its producers well. However, they do not normally have sufficient working capital to act as large scale traders transporting goods to Dar es Salaam, but they serve the role as intermediaries between the unknown large scale buyer and local producer for a small commission. Local brokers hire a small lorry and go to a local village where they negotiate the price for which they are prepared to buy the products. Villagers are then invited to bring the goods to the lorry to be transported to larger collection points to wait for Dar es Salaam buyers. The local traders are often also supplying goods for the wholesalers at the regional markets, who are

unable or unwilling to go to the villages to collect the products themselves. Goods like paddy are easy to store in bags and the paddy is processed into rice only when the buyer is known. Large scale buyers come to the collection points and buy goods from several small brokers at the same time and pays the commission in cash, freeing the brokers capital to be spent again on local produce.

4.1.3 Large Scale Buyers from Dar es Salaam

The large scale buyers purchase the goods directly from the producer or where the local traders are well organised (like in Mbeya) or alternatively where the local producers are not known, they buy from the local brokers. The buyers only deal with known producers and brokers as the products are paid for in cash and carrying large sums in unknown areas presents a personal risk to the buyers. Large scale buyers organise their own transport occasionally sharing a truck with another trader if necessary. They rarely own their own means of transport but hire trucks from the place of purchase. However, finding a truck in rural regions can be expensive and difficult as trucks are often standing in Dar es Salaam waiting for goods to be shipped back to the regions. Delays in transportation, on the other hand, affect the quality of the products and in unstable markets can also change the price of the goods to be sold to an unprofitable level within days. There are relatively few large scale buyers who know each other and can coordinate trips to different regions depending on the supply in each region and demand in Dar es Salaam. Once the goods reach Dar es Salaam, they are sold either to a buyer who has placed an order for the goods in advance; through brokers to a large number of smaller customers; or large scale buyers can act as wholesalers directly and sell to retailers from their own storage. The large scale buyers operate on a working capital of several million shillings but only the largest of them have enough capital to store the goods and wait for the prices to increase. Also increased competition in the national market has prolonged the time it takes to sell the products in Dar es Salaam tying traders' working capital for several weeks before the next trip to the regions can be made.

4.1.4 Transporters and Brokers of Transport Services

Transporters are facilitators of trade but not traders themselves. They take the goods from one trader to another for an agreed fee which is paid for in cash. The transporters may be part of a large transportation company but most often they work on freelance bases driving a hired truck or are paid by the owner to drive goods on demand. Goods and routes driven depend on the season, but as producers and traders are likely to trust the transporters from the same group or ethnic origin who can speak their tribe language, representatives of a given tribe tend to drive goods to and from the region where they are from. Trucks transport agricultural products from the regions to Dar es

Salaam and wait there for industrial or processed agricultural goods to be transported back to the regions. Sometimes trucks go back empty especially before long holidays as it is costly to stay and wait in Dar es Salaam. The transporters usually get information about goods to be transported through a broker both in the regions as well as in Dar es Salaam, but the role of the broker can also be fulfilled by the people who are looking for working opportunities to load and offload trucks coming to their market. The broker knows the local demand for transport services and sells the information to the transporters for 10 percent commission of the transport fee (100 US Dollar commission for shipments abroad). Dealing with a broker is the safest and often the only way of getting goods to transport. The fee for the broker is paid in cash immediately even though the transporters themselves most often do not get paid before the goods are sold at the final destination, and the money is sent back to the producer once the seller's fees and transportation costs have been deducted. The driver of the truck often gets a very modest fee as the owner of the truck takes the existing profit. Also the price of fuel has risen in recent years and fluctuations in fuel price means fluctuation in transporters' income. The further from Dar es Salaam one has to drive, the more expensive the fuel is. The total transport fee depends on the distance, condition of the road, and possibility of getting something to ship back from Dar es Salaam. For example the distance from Dar es Salaam to Mwanza is 501 kilometres and the transportation fee is 200,000 shillings per truck whereas the distance to Mtwara is 500 kilometres but the cost of transport is 800,000 shillings due to poor condition of the road. The full list of current transportation fees is presented in appendix 2.

Poor road conditions can sometimes stop the trucks completely in rural regions, which again is costly for the driver who has to pay for his accommodation while being stuck. Also perishable goods suffer from delays in transport. However, more common cause of delays is the road blocks by the police. There are several weighing stations along the roads to control that the trucks are not carrying loads above the permitted limit given to each vehicle. The fine for excessive weight must often be paid by the transporters as the producers always assure them that the goods they are about to transport are within the allowed weight limit. Besides legitimate controls, the trucks are often stopped by bribe-seeking members of the police force. On average, a truck is stopped 10 to 15 times on its way from Dar es Salaam to Iringa, and the current amount of an acceptable bribe ranges from 2000 to 5000 shillings. Despite the poor infrastructure and laws against giving and taking bribes the transporters highlight corruptness of the police as the main constraint for their business.

Besides the illegal activities of the police, another serious threat for the transporters is armed robberies. These are commonplace and all transporters interviewed for this study had personal

experience of this. Gangs of armed bandits stop the car by blocking the road with a fallen tree, sprinkle nails on the road in order to cause a puncture for the trucks, or attack when the truck slows down for a speed bump. The drivers are forced out of the car and the goods transported are stolen. Sometimes the bandits take the whole truck leaving the driver in a remote area. Especially the road to Mozambique and Malawi is known for its safety hazards. Sometimes the transporters are accompanied by armed guards but this increases the cost of transport and the drivers usually prefer travelling without armed guards as the bandits are also armed and carrying arms only leads to exchange of fire while non-resistance only leads to the goods to be stolen.

Even though the work is unpredictable, sometimes dangerous and badly paid, the drivers are not organised and thus they are unable to bargain for better working conditions. Only drivers of large companies are registered and organised, and also less likely to face problems in transport as they are often transporting goods belonging to World Food Programme or other international organisations, which are mostly left undisturbed by the police. The freelance drivers have a saying 'Usiku mbu mchana inzi – hakuna kulala' that freely translates into 'mosquitoes during the days and flies during the night – no time to sleep' referring to problems with the police during the day and risk of an armed robbery during the night.

4.1.5 Brokers in Dar es Salaam

The broker institution is especially pronounced at the Kariakoo market, which is the largest market in the country. By law, all agricultural products should first be sold at Kariakoo before they are transferred to other markets in Dar es Salaam or abroad. In practice, however, goods may be sold directly to the buyer elsewhere but Kariakoo still has a dominating role as the central market of the country accommodating thousands of traders and hundreds of tons of products daily. All products coming to the Kariakoo market to be sold must be sold through brokers. This brokerage institution is compulsory and guarantees the registered brokers a secured position at the market. However, in case the goods have already been bought directly from the regions by the wholesaler prior their arrival to Kariakoo, the brokers are not acting as middle men. There are currently 1344 brokers registered at the market, and individual brokers cannot affect their commission but trading is done with rather low margins. The working capital of the brokers fluctuates, but is normally at least one million shillings. However, trading perishable goods presents always a risk as the broker is liable to pay for the accommodation of the seller while he is waiting the goods to be sold and his money to be paid. As the Kariakoo institution serves as a guarantor for the brokers, sellers are willing to wait

for some days but this is costly to the broker. Perishable goods may get rotten within days without cool storage facilities that are not available at the markets.

In order to become a broker at Kariakoo, one needs to register with the Kariakoo institution and pay the applicable fees (currently 5000 shillings to register and 250 shillings per day to trade). However, aspirant brokers need to be known at the market and be recommended by two existing brokers to qualify for registration. Once registered, the broker agrees to obey good trading practice and his business is backed up by the Kariakoo institution and the storage facilities at the market can be used freely. In case of contract violation the institution can help to settle the dispute and discipline the broker in question. In absence of a working legal framework for enforcing contracts and settling disputes, this permanent broker institution helps to increase the credibility of the traders and decrease the risk for the buyers and sellers trading at the market. The lack of formal contracts also means that most of the deals are done between relatives or close personal friends. For example the tribes originating from the coastal regions are often serving as brokers for coconuts that are mostly produced along the coast. As large scale sellers do not know all buyers personally, brokers help by dealing several smaller deals to people known to them who may place orders for products through the broker. The brokers thus shorten the time in which the perishable goods are sold and money paid to the producer and working as intermediaries between the large scale sellers and smaller scale buyers.

4.1.6 Wholesalers in Dar es Salaam

Wholesalers are mainly based at Kariakoo or Tandale markets in Dar es Salaam. Tandale is the main market for grains and deals up to 10 tons of rice daily. The wholesalers buy bulks of goods coming to Dar es Salaam directly from the producers or other large scale traders who have purchased the goods from the regions. Sometimes, especially during the harvest season even the wholesalers go directly to the regions to purchase the goods. Small scale wholesalers operate a working capital of 200,000-1 million shillings whereas large scale wholesalers have more than 5 million shillings to trade with. Retailers from other markets in Dar es Salaam come to buy their products from the wholesalers and incur an additional transportation cost of shipping the products from Tandale or Kariakoo into smaller markets in the area. Tandale is located next to the main trunk road into Dar es Salaam and the majority of grain trucks unload their products there. Wholesalers grade and weigh the products and pay for the transport in cash. Due to increased competition in the wholesale markets, selling the goods is taking a longer time than in the past and wholesalers give credit to their customers more often as a means to close the deal. This, however, puts additional

pressure on wholesalers' working capital, which was mentioned as one of the main limitations for wholesale business. Poor storage facilities and lack of capital hinder the wholesalers to benefit from time arbitrage when the prices go up: products may get rotten before they are sold on to the retailers as the only storage available is usually on the ground at the market. As scales are scarce, bags of rice purchased can sometimes contain less rice than expected.

4.1.7 Retailers in Dar es Salaam

Retailers in Dar es Salaam are mostly small scale traders who purchase the products from larger traders and help them to distribute the goods to the final consumer. Also in Dar es Salaam, the three groups of retailers can be identified, which were described in section 2 for the regional market. The largest retailers act simultaneously as wholesalers, operate a well established business with a comfortable working capital and play an active role in the national supply chain. Medium scale retailers buy the goods from the wholesalers and often express willingness to move up the supply chain to operate as wholesalers but despite years of experience as retailers they are often unable to increase their working capital to the necessary level. Small scale retailers in Dar es Salaam most often sell perishable goods like bananas and have just sufficient working capital to buy the products for the next day. Even though the retailers in Dar es Salaam cater for a wider range of customers, the competition between the traders keep the marketing margins low. The type of business run in the capital area and rural areas is very similar: traders come to the markets daily, they sell to an established group of customers, store products at the market in bags or baskets without access to cool storage facilities, and are limited by lack of capital. Average characteristics of retailers in Dar es Salaam and rural areas are presented in appendix 3 (to be added).

4.1.8 Final consumers

Final consumers in Dar es Salaam come to the markets several times a week to purchase food items for own consumption. Using the markets instead of supermarkets gives them the possibility to bargain on prices and a larger choice of goods. Dar es Salaam consumers are better off than their counterparts in the rural markets, but they also pay a premium of buying the goods at the end of a long supply chain. Consumers in Dar es Salaam are more likely to have a wage income or business income as are the rural consumers, and thus they have more purchasing power to demand the goods they need. The main food items can always be found at the markets in Dar es Salaam even though their prices may fluctuate. Consumers can thus rely on a steady supply of food from the markets and subsistence farming is rare in the capital, even though several consumers reported complementing their consumption by cultivating a plot of land outside the city centre. Average characteristics of the

consumers in rural and capital areas are given in appendix 3. Markets in Dar es Salaam are easy to reach throughout the year and the number of small traders keeps traders' margins at a very competitive level. The main constraint for the consumers to use the markets is the dirtiness of the marketplace: goods are often lying on the ground and the smell of rotten food does not encourage new consumers to enter. Even though the traders know that they are losing customers due to poor hygiene, there is very little they can do as there is no water or toilets available even in the main markets, and the market buildings are in inferior condition. Not only the inability to improve the health standards, but also the lack of knowledge of health hazards contribute to the condition of the markets today.

4.2 Export Market: The case of cashew nuts

Some agricultural products in Tanzania are sold mainly at the local market (cassava) or the national market (paddy) whereas other products (cashew nuts, coco, coffee, tea, tobacco, sisal) are mainly targeted for export. Due to the clear segregation of the consumer base the supply of exported goods is not merely an extension of the national supply chain but it is operated through a separate marketing channel run by different actors. This report analyses the supply chain for cashew nuts as an example of an export crop that have practically no domestic market and are thus purely cultivated for exports. Allowing for minor adjustments in marketing arrangements (such as the coffee auctions in Northern Tanzania) this analysis in its general form can be applied to other export crops as well.

Tanzania is the world's fourth largest producer of cashews after Vietnam, India and Brazil. Despite the increased competition virtually all cashew nuts produced in Tanzania are sold to India where they are processed and sold onwards to the world kernel market. Tanzania provides 40 percent of the raw cashew nuts processed in Indian factories. Even though a thorough analysis of the historic development of the cashew market is beyond the scope of this study, a short overview of the past is necessary in order to understand the present situation. Cashew nut was commercially introduced in Tanzania in the 1930s and its cultivation has expanded ever since, even though there have been serious fluctuations in the quantities produced in different years (Kaleshu 2000). The marketing of cashew nuts was previously controlled by the Tanzanian Cashew nut Marketing Board, which operated as the only legal buyer of the crop until the early 1990s when the marketing of cashews were fully liberalised among the first cash crops in the country. The trade liberalisation has radically changed the role of different actors in the supply chain, all of which are introduced below. The government still plays an active role in cashew trade as a regulatory body, and participates in the

price negotiations with the buyers. In the beginning of the cashew season, price negotiations are held where the exporters, Cashew nut Board of Tanzania (CBT) (former Marketing Board), farmers' associations, chamber of commerce, ministry of agriculture and cooperative unions meet to negotiate an indicative price for the season. This indicative price is aimed at giving the lowest price for which the farmers are willing to sell their products, and the final price is to be negotiated on case by case basis. In practice, however, the indicative price is most often exactly the price that is paid at the market. The price negotiations are based on the current price at the kernel market and the price of raw cashews in other producing countries. Even though these world market prices act as the starting point for the negotiations, buyers with more experience in bargaining and more knowledge on the market are able to exercise considerable market power over the producers, who are still learning the art of bargaining in the free market environment. This situation applies in other crops as well and the learning process of adopting into the new ways of marketing is still ongoing.

Currently Tanzania is exporting mainly raw cashew nuts that are processed in India. Even though the main market for kernels is in Europe and the United States, the processing is mainly done in India. The world kernel market requires reliable supply of large quantities, which the Indian processors are able to meet. Cashew nuts used to be processed also in Tanzania by the marketing board, but after liberalisation the processing activities were run down as marketing board who used to do the processing was no longer acting as a buyer of the crops; processing capacity was not utilised due to a fall in the production of raw cashews and thus large orders could not be met; and farmers were seeking higher prices for their products from export markets instead of selling them to local producers. Currently all large factories for cashew nut processing in Tanzania are closed. The previous failure of the processing industry should not be seen as a constraint for the current entrepreneurs as the demand for kernels at the world market is high. The entry requirement for the market, however, is sufficient ability to supply high quality nuts in large quantities. In order to fulfil these requirements, the production of cashew nuts should stay at high levels and preferably increase. Very recently new private Tanzanian buyers have bought the factories and are in process of upgrading them to start processing during the next harvest season. This is likely to increase competition for raw cashew nuts as the Indian processing industry is relying on secured inputs from familiar suppliers. To ensure this, the country has set up an import support fund to support importation of the raw materials and to protect such a large employer in the area (Kaleshu 2000). The producers of cashew nuts can thus enjoy a secured market with scope for expansion for their products as long as a reliable supply can be ensured.

The supply chain for cashew nuts is dominated by a limited number of large scale actors, who operate under a different regime than the national traders. The vast majority of exporters are Indians and they are not limited in capital as are the Tanzanian traders. The supply chain for export crops is usually shorter than at the national market with larger trading margins.

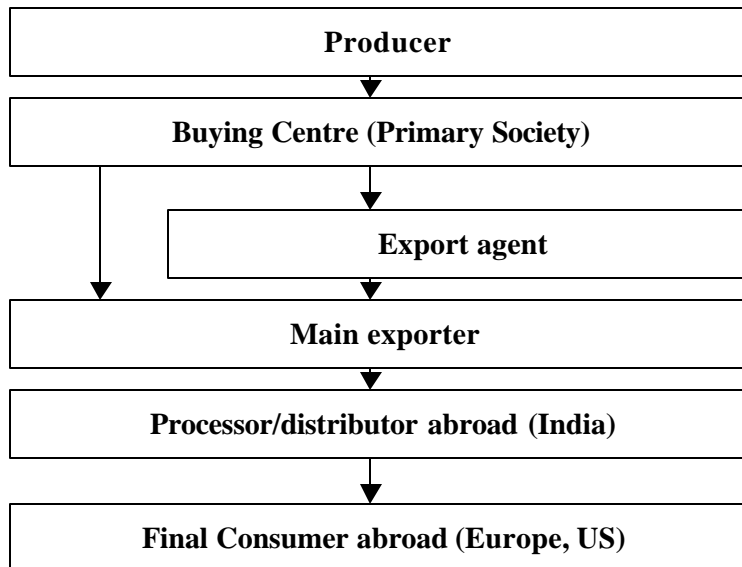


Figure 2: The supply chain of cashew nuts from the producer to the world market

The supply chain for cashew nuts starts from the producer who is selling her products through a primary cooperative. These primary cooperatives were formerly buying the crops for the government to sell onwards, but after the liberalisation the role of the cooperatives have changed into mere collection centres. These cooperatives collect the nuts from their members on behalf of the buyer and administer a levy issued by the district council. The Tanzanian Revenue Authority does not tax export but all levies and varying practices are imposed at lower level of authority. The exporters often use agents who negotiate the final price with the buyers/cooperatives and place orders at primary cooperatives located at village level. The agents transport the goods from the cooperative societies to the harbour, where the main exporter claims the goods and transports them onwards to their customers abroad.

4.2.1 Producers of cashew

Cashew nut is produced both in large farms covering 150 acres on average as well as in smaller farms of one or two acres. The small scale producers of cashew nuts are similar to other small-scale

peasants in the country. They too are constrained by their lack of capital to purchase necessary inputs for production and lack of know-how on how to improve their production. The special characteristics of the cashew farmers is their common dependence on one cash crop to provide cash income for the whole year. Even though other counter-seasonal cash crops, such as sim sim and soybeans, could be cultivated in the same plot with cashew nuts, varying production over and above the traditional cashew and cassava are still very rare. The price of the cashew has varied widely in recent years from 300 shillings up to 800 shillings per kilo introducing a large uncertainty of future profits. As the selling price is not known, farmers are rarely able to get a loan to cover the cost of farming inputs needed, like sulphur dust, in May, June and July before the harvest season in October. This seasonal shortage of cash could be aided with wider range of cash crops cultivated: sim sim harvest season falls conveniently for the same months when the cash for farming inputs is required. The lack of farming inputs, however, is not only due to the lack of cash. The effective demand is greater than current supply of pesticides and other farming inputs. All sulphur coming to Tanzania is bought often for prices far above the cost of production and transportation and farmers go across the boarder to Mozambique to buy the necessary inputs.

Government subsidies are commonly demanded to keep the prices of inputs low for the farmers. However, government subsidies have often a distortive effect on the market and the subsidy schemes are costly for the government. Furthermore, it is uncertain whether the subsidy would lead to the desired result of cheaper inputs as the supply of sulphur seems to be limited not so much due to farmers' inability to pay the fair price, but for the market power exercised by the private traders. Facilitating the licensing of new brand names for farming inputs and entry of new importers, as well as promoting farmers' efforts to communicate current demand for inputs are likely to be more effective and cheaper ways to increase the production. Government organised input funds have been an effort to collect money for next seasons inputs by deducting a small amount of revenue from the production sold. However, the mismanagement of such funds has led to failures to provide the promised inputs and have left the farmers with even less purchasing power to fight for the existing supplies. An organised ordering of inputs in good time is likely to be a productive way to solve some of the market imperfections currently in place, but in order for such schemes to work they should be implemented on voluntary basis by an institution trusted by the farmers that is knowledgeable enough to be able to bargain for the timely and reasonably priced supply. Such an institution is yet to emerge in Tanzania. One should also bear in mind that further education in farming practices would decrease the farmers' dependence on sulphur and other inputs as proper

tree management has been found to yield best harvest even when no farming chemicals are used (Nathaniels 1998).

Lack of business skills and poor liquidity of farmers puts them in a weak bargaining position when the final price of their products is to be decided. Even though the world market price for kernels gives the overall guidelines for price determination, the farmers are still unaware of this price. Even though farmers have started building farmers' associations, they are still weak and lack the education and experience needed in the price negotiations when faced by experienced international buyers with the relevant information and capital. An individual buyer is often willing to accept whichever price is being offered by the buyer who is coming to the village especially at the time when the cash from the last harvest has been depleted for a long time ago. Similar to the case of buying the inputs, more effective selling of the outputs would require more organised bargaining from the farmers and more capacity building in business skills.

4.2.2 Primary Cooperatives

Primary cooperatives used to be the only legal buyers of cashew nuts, but after the liberalisation their role has changed into mere agents of the buyers. They are collecting the products from the farmers on behalf of the buyer and their scales, personnel and organisation is used to manage the large scale trade of cashews during the harvest season. The primary cooperatives are also liable to collect the levy issued by the district council. Even though their role has changed, the primary cooperatives still fulfil an important task in the marketing process: "Given their uniqueness as the only institution fully organized and controlled by members both the CBT and merchants have found it difficult to ignore their presence and contribution" (Kaleshu 2000). The buyers come and place an order for cashews at the primary cooperative who delegates the products collected from the members for the highest bidder or for the optimal price for the society. The cooperatives do not buy the products themselves, but act as a forum for the buyers to bring the money and the producers to bring the products. Primary cooperatives are organised into secondary cooperatives, i.e. unions, but these higher levels of organisation are currently playing a very marginal role as a representative body.

4.2.3 Export Agents

Export agents are a small group of well established and well-off business men who are entrusted by the exporters to do the collection of goods on their behalf. Most of the agents are Indians and only a few Tanzanian business men are operating as agents on slightly lower margins. Buyers' willingness

to pay a premium for dealing with known traders is a commonly known phenomenon in Tanzanian trade, resulting in long supply chains. In case of the export market, the preference for known business partners is demonstrated in clear preference for the Indian buyers to deal with Indian agents. These agents are given large amounts of money (around 500 million shillings per week in high seasons) to buy the products and thus trusting the business partners is essential. The agents handle the transportation of cash to the villages and hire armed guards to accompany such money transfers. Virtually all trade in Tanzania is done in cash as most people do not have a bank account. Once the money has been deposited at the primary cooperative at the village, the agent returns after a while usually with his own truck to collect the products from the cooperative. The transportation cost is borne by the main exporter who also pays a comfortable margin for the agent. The margin is paid per kilo and the agents are buying several tons at a time. Farmers have expressed willingness to transport the products directly to the exporter avoiding the middle man institution but currently they lack the organisation and transportation capacity for this plan to materialise.

4.2.4 Main Exporters

The main exporters are few in number and they are all large, well-managed companies with offices in Dar es Salaam. Still, these companies are often mere buying agents for larger companies in India, where the cashews are to be transported. The export companies are formed of experienced business men who are well prepared for the price negotiations and who are able to exercise considerable market power due to their knowledge and experience of the market, access to large amount of capital, good transportation facilities from Tanzania to India, and good contacts to the final buyers of raw cashew nuts in India. The export trade is efficient and professional, and in order for the Tanzanian companies to compete at the same market, they would need a considerable improvement in business skills and capital. However, accessing the Indian export market may not be the first choice for the Tanzanian exporters anyway, as there is a large market for processed nuts in Europe and USA which the newly established Tanzanian processors are targeting. However, in order to balance the negotiating power at the existing price negotiations, the producers should be as well organised and knowledgeable as the buyers currently are. The Tanzanian producers are still learning the trading practices in the free market system and establishing a uniform association for the farmers with strong leadership is a goal for the future. This goal can be supported by capacity building and training, but for it to work the process of unionisation and selection of leaders must be home-grown and come from the farmers' movement rather than being imposed from above.

4.2.5 The World Market

The world market for cashew nuts is larger than what is currently exploited by the Tanzanian exports. India is the dominating buyer of raw cashew nuts but processed cashews are consumed in Europe, US, Asia and in smaller quantities also in East African Union and SADC countries. The quantities traded at the world market are large and the business relationships are based on reliable supply, which Tanzanian producers have so far been unable to meet. Also the size of the world market makes it difficult for one country to influence the price of the cashews at the world market, and in recent years the price has indeed varied radically from low levels of 300 shillings per kilo of raw cashew nuts up to 800 shillings per kilo. Entering the world export market would also require ability to deal with such price fluctuations. This adjusting is currently done mainly by the producers.

Box 3: Adding Value to the Export Crops – Women’s Initiative to Process Cashewnuts

Currently most of the cashewnuts produced in Tanzania are exported unprocessed. A women’s group called Kitangari Tulinge Women’s Development Association (KITUWODEA) has started adding value to the nuts produced in the area by processing them into roasted kernels ready to be sold. The association has currently 55 members divided into 5-persons working groups. Each group is able to produce 15 kilos of processed nuts daily, which are currently marketed at the local markets and public events. The money gained is mostly distributed among the group members but some of it is kept for common projects of the association. KITUWODEA has so far built three houses for their widowed members, sent their children to higher education and assisted in other development efforts with the cash earned from processing. The association is also building a small factory to be able to expand their business. Currently, the quality of hand-processed nuts is inferior to the industrial processors and the packaging material is not air tight resulting in shorter shelf-life of the goods. Building a small factory and investing in processing equipment are part of the association’s strategy to commercialise its activities. Even though the domestic market for cashewnuts is very limited and a small factory is unable to meet the orders coming from the world market, exporting cashews to the East African Community could possibly offer prospects for expansion, if the quality of the nuts can be guaranteed.

5. Main constraints for Trade in Tanzania Today

Even though each group in the supply chain expressed concern for a wide range of problems affecting their business, a number of common problems that affect the whole supply chain can be highlighted. The first set of problems relates to the physical capital for trade and transport. Even though the main trunk roads between the major cities are in a good condition, these roads are scarce. Most cities and regional markets cannot be reached by a good road throughout the year which bids up the cost of transport to these areas creating an additional market barrier the producers

in the area need to face if they wish to sell their products to the national market. Inadequate road network blocks also inter-regional trade between the non-capital regions, which might provide a viable source of customers for easily perishable goods for the local producers. As noted in the proceedings of the Annual roads Convention 1998 “you pay for good roads whether you have them or not”. Besides the trade between the larger markets, access to regional markets from the small village level markets, i.e. intraregional trade, is dependent on feeder roads, which at their current state are in poor condition. Poor feeder roads block consumers and producers from accessing the regional and national markets leaving them with very little choice but to rely on subsistence farming. Recent studies done in Tanzania have shown that improving feeder roads provide wide ranging welfare benefits in forms of more reliable supply at the market, decreased marketing margins, and better choice of livelihood strategy (Village Transport and Travel Programme VTTP final report 200X, and USAID Report, CHECK REF!).

Good access to a reliable and fast transportation network is vital for marketing of perishable goods in absence of appropriate storage facilities. Cold chains for perishable products do not exist even between or at larger markets (with exception of limited cool storage for fish at Kariakoo market). In tropical climate most products get easily rotten, and delays in transport and marketing present a considerable risk for the traders, one which they are often unable to bear due to limited working capital. The goods are currently stored at the markets in baskets or bags on the ground, which not only leads to the goods getting easily rotten but also presents a health risk to the traders and the final consumers. Even the main markets in the country are not provided with adequate supply of water, toilet facilities, or electricity despite the commitment of the government to provide such services when the division of market rent was agreed (10% stays at the market to cover the running expenses, 90% goes to the government). As traders spend years in the unhygienic conditions, especially in Dar es Salaam the health problems were a common concern among the traders. Not only does the poor hygiene affect the traders but also the final consumers at large and act as a constraint for market expansion. Thus upgrading the physical infrastructure at the markets and between the markets is urgently needed.

The second set of problems relates to lack of know-how and working capital. Despite the fact that most of the traders interviewed had been in business for decades, the level of knowledge in basic business skills was very low and the businesses are rarely growing. Especially in rural areas the traders are unable to distinguish between revenue and profit, and thus sometimes end up eating their own working capital while thinking that they are running a profitable business. Rotten goods or the

time it takes to collect the goods were most often not seen as a cost at all, and thus keeping track of incomes and outgoings becomes difficult. Lack of entrepreneurial skills is also a constraint for the farmer, who has traditionally been producing the same crops and starts finding the markets for them only at the time for harvesting. When the market demand is low and prices fall, the government is often called to come to rescue. However, training in business skills could facilitate the farmers in coming more market oriented and changing production patterns to follow the market requirements in order to materialise larger profits from agricultural production. Lack of business skills can act as a barrier for expanding the business especially when it comes to managing and obtaining loans, which are used to expand the working capital. Applying for a loan and acquiring collateral for it is still too difficult a project for many to handle. Even though the new Land Law has been introduced, using land as collateral is rarely an option as smallholder farmers rarely have the legal right to ownership of the land they cultivate. The government has formulated the National Micro-finance Policy in 2000 to ease producers' and traders' access to credit, but the implementation of the policy is lagging behind. In order for an entrepreneur to get to manage a loan successfully, he or she needs to have demonstrated ability to save to be able to join a savings and credit cooperative (SACCO) or (rarely) to obtain a formal loan from a bank. Currently small scale traders are unable to save and even the existing working capital is depleted during the times of hardship in the household. Even though most of the traders wish for micro-credit and soft loans, the existing experiments with private loan schemes have not been successful. For example, at Kariakoo market the brokers were offered small loans with high interest rate for the period of 3-6 months. Because the marketing margins that the brokers operate with are not high, small amount of borrowed capital is not generating large extra income in such a short period of time, which is needed to service the loan. Thus many brokers had bad experiences in getting into trouble when they failed to pay back the loan on time. Besides private loan schemes, many wished for government funded soft loans, that are usually offered for disadvantaged groups without any consideration for their ability to pay back the loan. These loans are often badly followed up, which results in poor repayment rates, and thus government loans are almost considered as grants. This, however, is not a functional nor sustainable way to facilitate trade. On the other hand, the government based loans with high interest rates and short loan periods have been tried at Tandale market by the cooperatives, but the demand for such a hard loan without means of using it profitably has been in low demand. Encouraging examples of committed grassroot level solution to tackle the problem of poor business skills and low working capital are to be found at the markets (see the case of TAMAGRASAI in box 4) but the local government is ill-equipped to foster such civil movements and facilitate their expansion.

Box 4: Grassroot solution for business skill training and micro -credit – TAMAGRASAI

Tandale Market Grain Sellers and Investors Association (TAMAGRASAI) started in 2002 when wholesalers with limited working capital started a joint venture together to help them stand up and defend their rights. The association has currently 186 members and it aims to facilitate trade by providing training in business skills to its members. The members who have benefited from the training are now better able to manage their business and get more income. Besides business training, the association has received one -off training of hygiene from the WHO and is training its members in matters related to HIV/AIDS. Every member pays a monthly contribution to the association according to the size of their business: small scale traders pay 1000 shillings per month and large scale traders pay 10,000 shillings per trip they make to the regions to buy the goods. These contributions have then been invested in shares of banks and large companies to increase the stock of capital. The association has at present capital of 15 million shillings all raised from members' contributions. In 2004 the association started a credit scheme offering loans to its members. Small scale traders can borrow money to cover transportation costs with 2.5% interest and large scale traders can borrow up to one million shillings with five percent interest for six months. The repayment rates have been high as the members are committed to the association and they have been trained in business skills and loan management. However, the current capital owned by the association is not enough to meet the demand for loans and plans for expanding the association. The association has approached the local government already in 2003 and asked for their assistance to organise more training and establish links to private financial institutions where the association could apply for a loan. Further constraint to the association and its members is the poor condition of the market. The traders raised money themselves to build a roof over the rice storage to complement the allowance from the government. The association is asking for the local government to help in improving the market conditions to attract more business and investors into the market but so far they have not received an answer.

The third set of problems is institutional. Even though the central government is promoting trade and negotiating policies to remove barriers for trade, the lower levels of institutions are still underdeveloped and unable to function as credible players at the national and export market. Crop boards for marketing of export crops are led by political appointees, and cannot as present serve the function of representative of stakeholders' interest, but new credible institutions in the liberalised market environment are yet to emerge. Especially farmers associations and cooperatives have the potential of developing into representative organisations for the ir members, but currently they lack the institutional capacity and resources to function efficiently. Local government with its current resources has been unable to respond to this need for capacity building and facilitation of groups at grassroot-level. After active advocacy and lobbying the Tandahimba Farmers' Association (TAFAs) in Mtwara presents a successful case study where farmers' group has raised the need for extension services that has been provided by the district council, and currently the government agricultural specialist is working with TAFAs in promoting new crop varieties and better processing practices of existing products, like cassava. The government decentralisation scheme Local Government Reform

Programme (LGRP) is aimed at enforcing the local institutions to enable them to handle increased responsibility and enhance their responsiveness to local initiatives. However, the results of the programme are yet to be seen. Another institutional barrier for trade is the lack of institutional arrangements for following and enforcing trading agreements results in frictions in the marketing chain. Currently the traders only trade with people they know and agreements are hardly ever done in writing. Due to unstable markets, changing agents at the market and poor ability to enforce the contracts in case of violation leads to long supply chains of friends as contracts cannot be made directly between the consumer and the producer who are unknown. As a result of absence of standard units of measurement and standardised grading of products, buyers and sellers need to be present when the transaction takes place to ensure the quantity and quality of the goods being traded. Reliance on personal or family relations also costs in terms of losing a large part of the potential market due to insufficient information of the prices and quantities demanded. However, at present the system operates to assure the functioning of the market in second-best environment in absence of knowledge of national supply, demand, and prices. Brokers in different parts of the supply chain match previously unknown traders with producers and ensure the transaction with their permanent presence at the market. The change in attitudes currently based on long lasting tradition, and the improved capacity of the legal machinery to deal with a large number of small contract violations are long term development goals, which have the potential of improving the trading practices and decreasing the transaction time and cost in benefit of both producers and consumers. Lastly, a major impediment for efficient trading is the widespread corruptness of the police force, which results in higher transaction costs and unnecessary delays in transportation. Overlooking the problem is costly in terms of lost trading volumes due to high marketing margins, rotten products due to unmotivated delays, and unrealised tax income from trade. Poorly functioning police force creates also a free playground for the armed bandits who pose a real threat for goods transported by road. Further training of the police, improvements in their wage and incentive schemes, and serious political attitude for disapproving current practice is needed to tackle the problem.

6. Policy Recommendations – The Way Forward

The government has made major changes in its policy to open the markets and facilitate free trade in the country. Current agreements with the WTO allowing Tanzania to enjoy non-reciprocal preferential access to developed markets, such as the European Union (EU) under the Everything but Arms (EBA) agreement, recent validation of the East African Community customs' union, as well as membership at Southern African Development Community (SADC) are substantial changes

into enlarging the market for the Tanzanian products. Also the national market has been enhanced and trade facilitated by continuing to streamline the national tax policies and remove legal barriers for entry. However, changes at the top must be complemented with supporting policies at lower levels of administration to ensure that trade liberalisation serves as a welfare increasing policy instrument. Many traders still long for the good old days with practically no competition and government subsidies to the farmers guaranteeing low price of agricultural products at the farm gate. On the other hand, farmers would still like to produce more maize and other traditional crops hoping that the government would purchase unlimited amounts of produce irrespective of the true demand for the goods. However, the support of such marketing power and unsustainable subsidies that distort the markets are part of the past, but the attitudes change slowly. The government policy of trade liberalisation has been successful in removing formal barriers for trade an increasing competition at all levels of the supply chain but old attitudes and informal barriers still remain. In order for trade liberalisation to work for pro-poor growth, trade needs to be facilitated by active government policies.

Improving road infrastructure has been on the government agenda for a long period of time but it has not received the emphasis and sense of criticalness as it requires. Current level of road infrastructure fails to facilitate efficient trade leading to unnecessarily high transportation costs and long transportation times. It also decreases the size of the market by blocking more remote producers and potential consumers from the market giving market power to the few large scale players who are able to meet the transaction costs. Investing especially in feeder roads is likely to bring about large welfare gains in terms of large volumes traded, which again brings more money into circulation and creates improved livelihood opportunities. As investment in infrastructure is costly, donor community can continue playing an active role in facilitation Tanzanian government's own plans for road construction, such as the ten year master plan for road network in Tanzania. Facilitating access to not only local village markets but also to regional and national markets is vital to allow poor rural households to benefit from the development and to raise small local traders up the supply chain into more profitable positions. In order for such a market expansion to happen, also the customer base must be allowed to increase by encouraging non-farm rural employment opportunities and vocational training to ensure that the money stays in circulation in rural areas. Trade is only a part of a holistic development agenda aimed at improving people's welfare. If the road network would allow easy access even to more remote areas, also processing facilities could be based into rural areas where the surplus producers of perishable goods are. In absence of good storage facilities, goods processed close to their production site can then easily be shipped to larger

markets and thus increase the effective demand and supply of these goods. Roads, processing and storage facilities, as well as market infrastructure are all part of the necessary prerequisite for efficient trading. Currently the marketplaces are in poor condition which presents a serious health risk to the traders and the consumers, and hinders the expansion of the market in terms of new customers and investors.

Cheaper but less straightforward change needed to facilitate trade is the improvement of institutions. This cannot be done by the donor community but the change needs to be home-grown in order to ensure ownership of and commitment to the changes at all levels of administration. Providing more training in business skills, demonstration farms for more market based production, and other vocation training is likely to improve the income earning capacity of the small-scale producers and traders. Corruption of the police force needs to be tackled as it currently forms a serious block at the market and allows for armed robberies to take place during transport. Increased awareness, political will and improved training and incentive schemes for the police officers are means to tackle this problem. Also government efforts to stabilise and regulation the markets to facilitate trading between strangers are needed to shorten the supply chain and cut costs. This would also facilitate the circulation of working capital which is currently seen as a problem at every stage of the supply chain. Improved access to capital through loans is a desirable policy goal but the way in which such a policy is implemented is of crucial importance. Despite the burning need for loans credit schemes are unlikely to succeed unless they are properly followed up and complemented with training component in business skills and servicing the loan. On the other hand, in case demonstrated ability to save and commitment to enhancing the business has been raised at the grassroot-level, the capacity of the local government should be improved to facilitate such initiatives. Building capacity of the local government is highly topical in light of the government plans to concentrate the channelling of funds from the donors through the central and local governments.

Trade facilitation can be a powerful tool in poverty alleviation as it has the possibility of generating income earning opportunities for the rural farmers who currently have very little possibilities to earn income otherwise. However, for trade to be efficient and in order for the poorest farmers to be able to join, mere changes at the national level are not sufficient. Active policy measures are needed to empower farmers to negotiate the prices, access the larger markets and to move people up the supply chain from the village markets to regional and national markets by removing the informal barriers of entry, such as high transportation costs and the need to trade only

with known partners. Allowing people who currently have very little possibilities to benefit from trade to participate with equal terms is likely to lead to welfare improvements that can greatly affect the rural farmers, i.e. the majority of the poor. This has also a strong gender implication as women are currently unequally represented in the supply chain and usually only fulfil the role of a small scale retailer of perishable goods. Production, processing and trading tasks are clearly segregated between the sexes disavouring women's placement at the powerful positions in trade. The Agricultural Marketing Policy sets a clear vision "to have an agricultural marketing system that is efficient, effective and equitable by 2015". The major challenge for the years to come is the effective and timely implementation of this policy so that agricultural trade could realise its potential as a tool in the fight against poverty.

Sources:

Agricultural Marketing Policy (Second draft) 2005, Government of Tanzania, Ministry of Cooperatives and Marketing.

Agricultural Sector Development Strategy (2001), Government of Tanzania.

Kaleshu, J. (2000) Consultancy Report on Cashewnuts Marketing in Tanzania, made for the I.C.A. Regional Office.

Nathaniels, N. (1998) Cashew Management Based on Knowledge Is the Profitable Way Forward for Smallholders in Lindi and Mtwara Regions, consultancy report made for the Rural Integrated Project Support (RIPS) Programme.

National Micro-finance Policy (2000), Government of Tanzania.

Poverty Reduction Strategy Paper (PRSP) (2000), Government of Tanzania.

Appendix 1: People and organisations interviewed for the study

Dar es Salaam:

ESRF:

Dr. Josaphat Kweka

Dr. Oswald Mashindano

Mr. Liam K.

University of Dar es Salaam:

Professor Wilbard Maro

Dr. Natu Mwamba

Dr. Fanuel Shechambo

Professor Lucian Msambichaka

Participants at the National Stakeholders' Workshop on the Agricultural Marketing Policy on the 8th of April 2005.

Kariakoo market:

Mr. B.J. Mallaya, Planning and Commercial Operations Manager

Mr. Nicanol Omollo, statistician

Focus group discussions with large scale traders, retailers, and brokers.

Tandale Market:

Mr. Ali Ismail Uledi, Deputy Chairman

Mr. Saidi Lumuli, Secretary General

Mr. Juma Dito, Protocoll Officer of TAMAGRASAI

Mr. Rogatian Mketu, Secretary General of Tandale Vegetable Cooperative Society

Mr. Mharami, Secretary General of Tandale Food Product Cooperative Society

Focus group discussions with grain wholesalers, fruit wholesalers, and transporters

X small scale traders

X buyers

Ilala market:

X small scale traders

X buyers

Kinondoni market:

X small scale traders

X buyers

Ubungo market:

X small scale traders

X buyers

Focus group discussion with transporters at the X

Ifakara:

Ifakara market:

Mr. Juma Kitowelo, manager

21 small scale traders

10 buyers

Bethlehem market and Kibaoni market:
10 small scale traders

Focus group discussion with local rice brokers

Ms. Sikudhani Wajadi, Secretary of a local women's group

Mtwara:

Rural Integrated Project Support (RIPS)
Julie Adkins, Programme manager
Swallah S. Swallah, Development facilitator

Abbasi Exports Limited
Vinil Kumar, Cashew nut quality controller

Mr. Hamis Zawad, Buying agent

Cashew nut Board of Tanzania (CBT)
Mr. Amma, Director of Planning and Marketing

TANROADS
Mr. Damien Mbavalinzi, Regional Manager
Mr. Mkina, Senior Maintenance Engineer

Tanzanian Revenue Authority (TRA)
Mr. Laurent Paul, Regional Manager

District council
Mr. Kapinga, District Agriculture and Livestock Officer

Naliendele Agriculture Research Institute

Mtwara-market:
Union of traders at the main market in Mtwara (WABISOCO)
Mr. Ahmad Afeli, Chairman
Mr. Muhammed Juma, Vice-chairman
Mr. Saidi Namala, Executive Secretary
Mr. Hassan Chale, Assistant

15 small scale traders
15 buyers

Focus group discussions at the Mtwara market: Local traders, wholesalers, producers, transporters

Kitangari- village:
Kitangari Tulinge Women's Development Association (KITUWODEA)
Ms. Zaituni Nawamba and other group members

Focus group discussions in Kitangari-village with large - and medium scale cashew nut producers

Magombo-village:

Focus group discussion with small scale peasant farmers

Newala -market:

Newala Farmers' Association

Mr. Muhindini Mnali, Chairman

Mr. Simon Kaminyoge, Secretary

Union of traders at Newala -market (UWABINESO)

Mr. Adinani Saidi Kachepe, Chairman

Mr. Saidi Hassan Mbeweka, Secretary

5 small scale traders

5 buyers

Tandahimba -village:

Tandahimba Farmers' Development Association (TAFA)

Mr. Adinani B. Mbwana, Chairman

Mr. Amimu Mgeni, Agricultural Specialist

Appendix 2A: Transportation costs from Dar es Salaam to all regions in Tanzania (per 10 tons in Tanzanian shillings)

Dar es Salaam – Mwanza	1,200,000 TSH
Dar es Salaam – Iringa	200,000 TSH
Dar es Salaam – Mbeya	450,000 TSH
Dar es Salaam – Dodoma	250,000 TSH
Dar es Salaam – Mtwara	800,000 TSH
Dar es Salaam – Songea	600,000 TSH
Dar es Salaam – Singida	500,000 TSH
Dar es Salaam – Rukwa/Sumbawanga	1,300,000 – 1,400,000 TSH
Dar es Salaam – Lindi	600,000 TSH
Dar es Salaam – Arusha	450,000 TSH
Dar es Salaam – Kilimanjaro/Moshi	300,000 TSH
Dar es Salaam – Morogoro	150,000 TSH
Dar es Salaam – Mara	1,300,000 TSH
Dar es Salaam – Tanga	2,000,000 – 2,500,000 TSH
Dar es Salaam – Manyara	500,000 TSH
Dar es Salaam – Ruvuma/Songea	700,000 TSH
Dar es Salaam – Kigoma	1,200,000 TSH
Dar es Salaam – Tabora	800,000 TSH
Dar es Salaam – Pwani	80,000 TSH
Dar es Salaam – Kagera	1,600,000 TSH
Dar es Salaam – Shinyanga	800,000 [‡] TSH

Source: Own Survey

[‡] Estimated from the other costs

Appendix 2B: Transportation costs from Dar es Salaam to neighbouring countries (per 10 tons in US Dollars)

Dar es Salaam – Kenya	2,500 USD
Dar es Salaam – Uganda	2,500-2,600 USD
Dar es Salaam – Rwanda	2,500-2,600 USD
Dar es Salaam – Burundi	2,500-2,600 USD
Dar es Salaam – DRC	3,000 USD
Dar es Salaam – Zambia	2,400 USD
Dar es Salaam – Malawi	???
Dar es Salaam – Mozambique	2,800 USD

Source: Own Survey

Appendix 3: Selected Statistics of the districts of Kilombero and Mtwara

	Kilombero (Ifakara)	Mtwara (Mtwara town)
District area	14,918 km ²	3,437 km ²
Population:		
Rural	230,774	204,770
Urban	90,837	
Employment categories:		
Peasant farmer	81 %	80 %
Forestry, fishing	7 %	10 %
Trade	3 %	5 %
Public administration	3 %	3 %
Other sectors	7 %	2 %
Number of registered traders	695	3037
Average rainfall	1000-20,000 mm/year	900-1000 mm/year
Major crops and production in 2003/2004:		
Paddy		9,304 tons
Maize		3,604
Bananas		70
Cassava		89,309
Sorghum		6,878
Pulses		5,021
Cashew		3,671
Coconut		3,619
Sim sim		1,625
Groundnuts		2,368
Road network:		
Regional roads		844 km
Trunk roads		304 km

Source: Kilombero district council, Mtwara district council, TRA, TANROADS